



Victorian Certificate of Education 2008

SUPERVISOR TO ATTACH PROCESSING LABEL HERE

STUDENT NUMBER

Letter

Figures

Words

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ECONOMICS

Written examination

Friday 7 November 2008

Reading time: 3.00 pm to 3.15 pm (15 minutes)

Writing time: 3.15 pm to 5.15 pm (2 hours)

QUESTION AND ANSWER BOOK

Structure of book

Section	Number of questions	Number of questions to be answered	Number of marks
A	15	15	30
B	4	4	60
			Total 90

- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white out liquid/tape.
- No calculator is allowed in this examination.

Materials supplied

- Question and answer book of 20 pages.
- Answer sheet for multiple-choice questions.
- Additional space is available at the end of the book if you need extra paper to complete an answer.

Instructions

- Write your **student number** in the space provided above on this page.
- Check that your **name** and **student number** as printed on your answer sheet for multiple-choice questions are correct, **and** sign your name in the space provided to verify this.
- All written responses must be in English.

At the end of the examination

- Place the answer sheet for multiple-choice questions inside the front cover of this book.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

SECTION A – Multiple-choice questions**Instructions for Section A**

Answer **all** questions in **pencil** on the answer sheet provided for multiple-choice questions.

Choose the response that is **correct** or that **best answers** the question.

A correct answer scores 2, an incorrect answer scores 0.

Marks will **not** be deducted for incorrect answers.

No marks will be given if more than one answer is completed for any question.

Question 1

What is meant by the statement that every economic system faces the problem of relative scarcity?

- A. There are insufficient productive resources to satisfy all wants of society.
- B. There are times when some products can be obtained only by paying high prices.
- C. In the early stages of the development of an economic system, shortages are common.
- D. Economic systems have cyclically recurring depressions during which scarcities occur.

Question 2

The peak phase or boom period of the business cycle is usually associated with

- A. constant or steadily rising Gross Domestic Product (GDP).
- B. resources lying idle and excess productive capacity.
- C. rapid expansion of aggregate demand and increasing inflationary pressures.
- D. a rise in the general price level and high levels of cyclical unemployment.

Question 3

Which of the following policy actions to reduce traffic congestion on Melbourne's roads is not a response to market forces?

- A. raising tolls on freeways
- B. increasing petrol taxes
- C. building more train and tram lines
- D. banning cars in Melbourne's central business district (CBD) during peak hour

Question 4

Which of the following would shift the supply curve for housing in Melbourne to the right?

- A. the release of more land for housing development in the outer suburbs
- B. an increase in the cost of construction materials
- C. an increase in the first home owner's grant
- D. an increase in mortgage interest rates

Question 5

Which policy mix is most likely to decrease aggregate demand?

- A. an increase in interest rates and a decrease in government expenditure
- B. an increase in interest rates and an increase in government expenditure
- C. a decrease in interest rates and an increase in government expenditure
- D. a decrease in interest rates and a decrease in government expenditure

Question 6

An increase in the number of retired workers returning to work is most likely to

- A. decrease government revenue.
- B. increase government expenditure.
- C. increase the productivity of the economy.
- D. increase the productive capacity of the economy.

Question 7

The most likely effect of a rise in Australian interest rates is

- A. an appreciation of the Australian dollar and an increase in the volume of exports.
- B. an appreciation of the Australian dollar and a decrease in the volume of exports.
- C. a depreciation of the Australian dollar and an increase in the volume of imports.
- D. a depreciation of the Australian dollar and a decrease in the volume of imports.

Question 8

Consider the following table.

	Full-time adult ordinary time earnings	Rate of inflation
Year	% increase on previous year	% increase in CPI
2003–04	4.9	2.4
2004–05	4.6	2.5
2005–06	4.8	4.0
2006–07	3.6	2.1

In which year was there the lowest increase in real wages?

- A. 2003–04
- B. 2004–05
- C. 2005–06
- D. 2006–07

Question 9

Suppose the government reduces subsidies paid to dairy farmers.

The most likely effect on the price of dairy products would be

- A. an increase as there would be an increase in demand for milk.
- B. an increase as there would be a decrease in the supply of milk.
- C. a decrease as there would be an increase in the supply of milk.
- D. a decrease as there would be a decrease in demand for milk.

Question 10

The economy is experiencing increasing levels of economic activity.

Which of the following might be a reason for unemployment rates remaining around 4%?

- A. The compulsory school leaving age has been raised.
- B. There is an increase in the number of discouraged workers.
- C. There is an increase in the labour force participation rate.
- D. The number of people taking early retirement has increased.

Question 11

Which of the following is not included in the calculation of Australia's Gross Domestic Product (GDP)?

- A. transfer payments paid by the government to poor families
- B. spending on a new computer by a business
- C. spending on a holiday to Queensland by a household
- D. funds paid by the government to build a new school

Question 12

The following statements have been made by producers.

Which is an explanation for a movement along the supply curve?

- A. energy cost rises have forced us to increase prices
- B. the new equipment installed will make us more competitive
- C. an increase in the demand for our product has resulted in a price rise
- D. the rising prices of raw materials have increased our costs

Question 13

If car industry tariffs are cut from 10% to 5%, the most likely short-term effect of this would be

- A. an increase in demand for imported cars and an increase in the current account deficit.
- B. an increase in cars manufactured in Australia and a decrease in the current account deficit.
- C. a decline in productivity in the Australian car industry and a decrease in the rate of economic growth.
- D. an increase in productivity in the Australian car industry and a decrease in the rate of unemployment.

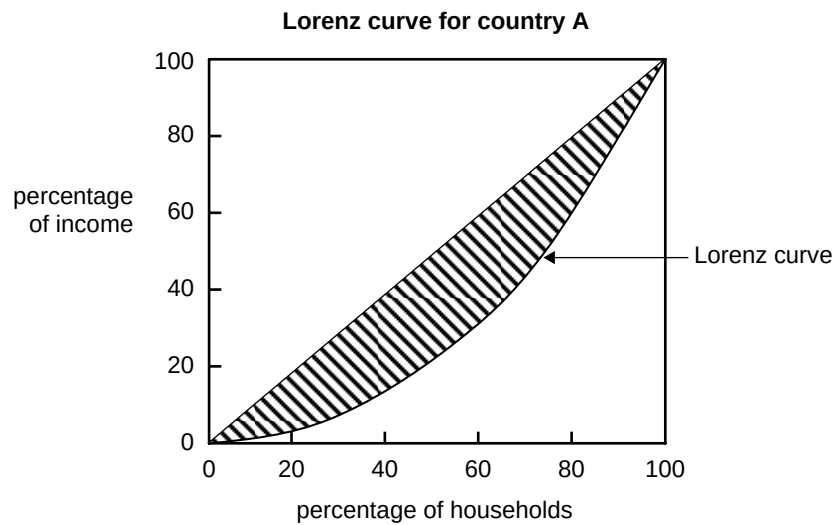
Question 14

Which of the following is **not** a likely aim of microeconomic reform policy in Australia?

- A. increased labour productivity
- B. increased allocative efficiency
- C. increased international competitiveness
- D. increased market share by dominant firms

Question 15

Refer to the following Lorenz curve for country A.



Which of the following statements about the distribution of income for country A is **false**?

- A. The Gini coefficient for country A is between zero and one.
- B. The shaded area on the above chart indicates the extent of the inequality in the distribution of income for country A.
- C. Any change in the distribution of income for country A that caused the Lorenz curve to move to the left would represent a reduction in the inequality of the distribution of income.
- D. A change in the distribution of income which involved higher income households receiving a larger share of income would move the Lorenz curve to the left.

SECTION B – Written responses

Instructions for Section B

Answer **all** questions in **pen** in the spaces provided.

Question 1

‘The risk of inflation remaining uncomfortably high for some time is considerable . . .’

Reserve Bank of Australia Statement on Monetary Policy, February 2008

- a. Describe **two** influences that are likely to have added to inflationary pressures in the Australian economy during 2008.

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4 marks

- b. Discuss **two** problems for the Australian economy 'of inflation remaining uncomfortably high for some time'.

4 marks

- c. Explain how the operation of monetary policy and budgetary policy might complement each other to reduce inflationary pressures in the economy.

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6 marks

Question 2

- a. Explain what is meant by market failure. Discuss why climate change might be considered an example of market failure. Discuss **one** other type of market failure.

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6 marks

- b.** Discuss **one** example of a government policy action that might combat climate change.

4 marks

May 2008–09 Budget – Budget outcome table

	Actual	Estimates	
	2006–07	2007–08	2008–09
Underlying cash balance (\$b)	17.2	16.8	21.7
Per cent of GDP	1.6	1.5	1.8
Fiscal balance (\$b)	17.2	20.4	23.1
Per cent of GDP	1.6	1.8	1.9

a. Explain the difference between automatic (cyclical) and discretionary (structural) budgetary stabilisers. Give an example of each.

[illegible]

SECTION B – Question 3 – continued
TURN OVER

- b.** Select **one** example of a change in budgetary discretionary policy from the 2008–09 federal (Commonwealth) budget. Examine its likely effect on the achievement of equity in personal income distribution.

4 marks

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SECTION B – Question 3 – continued
TURN OVER

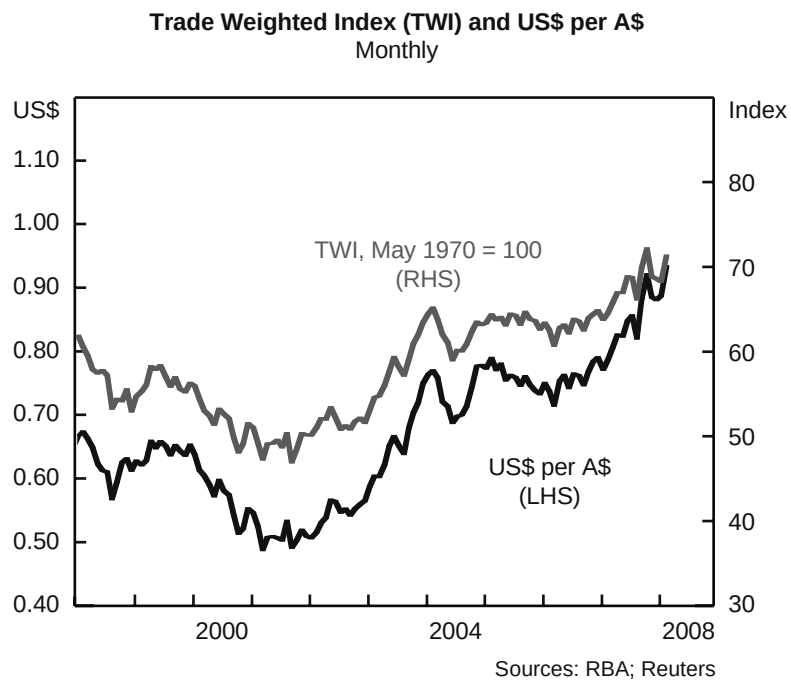
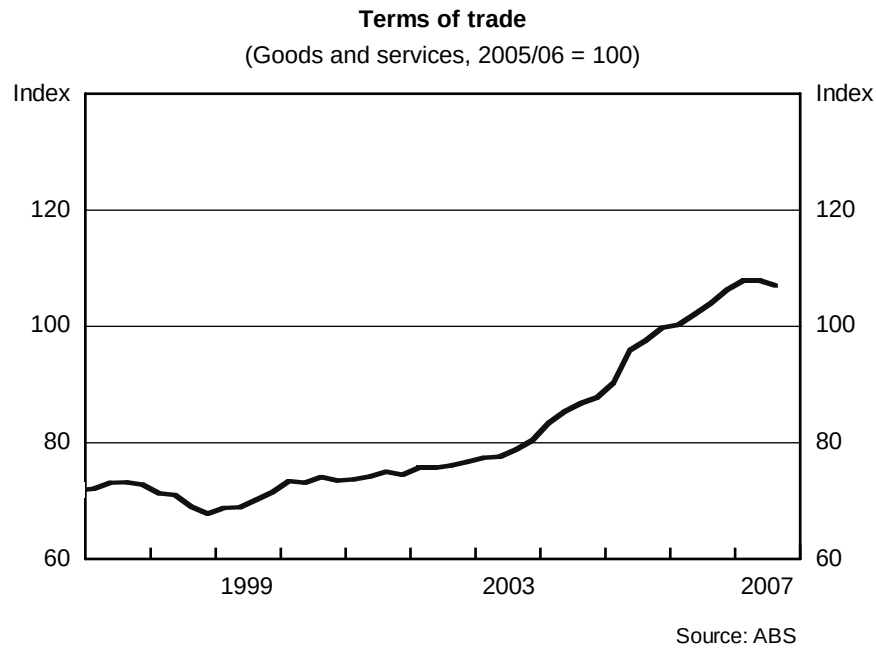
- d. Select **one** example of budgetary policy and **one** example of microeconomic reform policy implemented between 2005 and 2008 which might influence the supply side of the economy. Explain how each of these policies might affect efficiency in resource allocation and thereby the rate of economic growth.

[illegible]

8 marks

Question 4

The following charts relate to Australia's terms of trade and exchange rate performance in recent years.



- a. Explain the difference between the balance of (merchandise) trade and the terms of trade.

[illegible]

4 marks

- b. Outline **one** possible reason that could explain the trend in Australia's terms of trade between 2003 and 2008.

2 marks

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d. Discuss the likely impact that the trend in the value of the Australian dollar between 2003 and 2008 might have on the

- [illegible]

6 marks

Clearly number all responses in this space.

[illegible]

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[illegible]